

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1056-01  
Bill No.: HB 509  
Subject: Education, Elementary and Secondary; Revenue Dept.; Taxation and Revenue -  
General and Income  
Type: Original  
Date: February 16, 2001

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
General Revenue	(\$20,115 to \$5,281,806)	\$0 to (\$5,197,854)	\$0 to (\$5,200,415)
<b>Total Estimated Net Effect on <u>All</u> State Funds</b>	<b>(\$20,115 to \$5,281,806)</b>	<b>\$0 to (\$5,197,854)</b>	<b>\$0 to (\$5,200,415)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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## **FISCAL ANALYSIS**

### ASSUMPTION

In a similar prior fiscal note, officials of the **Department of Revenue (DOR)** stated this legislation would grant employers that allow an employee paid leave to volunteer at a public elementary or secondary school a credit against Chapter 143, excluding withholding taxes, in the amount of 50% of the amount of the federal minimum wage for each such hour of paid leave per employee.

The number of taxpayers eligible for this credit is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 130,000 returns filed with this credit and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the credit. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$41,617. Modifications to the income tax returns and schedules will be completed with existing resources.

**Oversight** assumes the Department of Revenue would require 346 hours of overtime at a cost of \$17,300 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$2,815 for additional storage and fields to be captured.

Officials from the **Department of Elementary and Secondary Education (DESE)** state this proposal creates an income tax credit for employers who grant employees paid leave to volunteer at public elementary and secondary school during school hours. The credit is refundable. No more than \$5 million per year is allowed as credit on a statewide basis. Credits shall be issued in the order applications are received. DESE staff state this proposal would not fiscally impact their agency.

Officials of the **Missouri Department of Labor and Industrial Relations (DOL)** assume the Division of Employment Security (DES) would be assigned the responsibility for implementing and maintaining the program for certification and assignment of tax credits, additional funding from General Revenue would be needed to cover the significant costs generated to meet the responsibilities of the program. DES's current funding is strictly for the administration and payment of the unemployment compensation (UC) program.

Because DES's funding is dedicated to the UC program, additional funding from General Revenue would be needed on a continuous basis to cover the costs associated. This amount would be contingent on the number of employer requests for certification, employee leave hours, rules developed and numerous other factors, which would not be known until the Division developed a complete administrative plan.

ASSUMPTION (continued)

The DOL does not currently operate a tax credit program and can only estimate the cost to adequately establish and carry out the functions of the program.

The proposal provides employer requests are to be treated on a first come first serve basis. To ensure employers are granted tax credits fairly as provided, the DOL assumes the program would allow employers to apply for the credit as soon as an employee's paid leave is completed. Otherwise, if the employer waited to apply for the credit, the balance of the \$5,000,000 of allowed tax credits could be exhausted. This could generate multiple requests from a single employer annually.

The Department of Revenue estimates there are approximately 134,000 employers in Missouri, who may qualify for the proposed tax credit certification. The conditions for meeting most other tax credit programs are not usually as common as those described in the program proposed. Most of the 134,000 employers will probably experience and meet the conditions under this program. The \$5,000,000 of available credit at \$12.50 per hour allows for approximately 400,000 hours of leave for DES to review and process for certification; however, DES would have to continue to process and respond to employer requests made after the \$5,000,000 allowance was exhausted.

Mailing the application, determination and yearly certification would create at least three mailings per year for one employer. Administrative Services estimates the cost for mailing each item at a pre-sort rate of \$ .32. If DES received requests from one third of the employers, postage could exceed \$42,880 annually (134,000 divided by 3 Xs 3 mailings per employer = 134,000 mailings Xs \$ .32) plus the cost of envelopes at \$10 per box of 500 would be \$2,680. DOL assumed there would be a substantial volume of mail initially received and generated at the time of enactment due to employers competing for the credit, which has a retroactive date of 01-01-2001. Employer requests received after the \$5,000,000 is exhausted would also require additional staff time and mailing costs for the agency. Since the proposed program can not be supported by DES's current funding, additional funding would be needed to cover the proportionate cost for mail room staff. This is estimated to be one-half FTE for a Clerk II. DOL notes that additional mail room staff may be needed depending on the increased amount of mail received and generated, which is not included in the projected costs.

DOL assumes the employer's application form could require in-depth information to determine eligibility and to maintain the integrity of the program and deter fraud. This information may include the employer's name, address, telephone number, employee's name, social security number, activity date, name of the school, school address, school telephone number, school contact for verification, time period there to include the total of hours for each occurrence and what activity the employee participated in. The form may also require certification by the employee, employer and school.

To administer the proposed tax credit program, DES assumes personnel duties would include: opening mailed employer requests, date stamping each piece, filing, reviewing each request,

ASSUMPTION (continued)

responding to each by generating an application, mailing the application, opening returned/completed employer applications, date stamping each received, filing, investigating, issuing a determination on each application and imaging all pertinent documentation in addition to other duties such as answering telephone calls etc. The DOL estimates a minimum of 2.5 FTE's for a Clerk II, 3 FTE's for a Contribution Technician and 1 FTE for a Contributions Supervisor II would be needed with a 2% yearly increase in salary. It is estimated the cost for personnel including a 24.41% rate for fringe benefits would be \$217,152 for 2002, \$221,493 for 2003 and \$225,921 for 2004. Basic equipment and office expense is estimated to be \$65,490 for 2002, \$3,960 for 2003 and \$3,960 for 2004.

The Office of General Counsel estimates it would need at least 40 hours or more to assist in developing rules. At a rate of \$ 33.27 per hour, this would indicate the cost for promulgating rules would be at least \$ 1,330.80 and more.

Information Systems (IS) has estimated the costs for establishing and supporting basic program functions for the tax credit process such as generating yearly certifications, approval and denial letters based on \$39.16 per hour. IS believes this rate will increase in July 2001. The amount of the increase is not known.

<u>Task</u>	<u>Hours</u>	<u>Cost</u>
System Design	160	\$6,265.60
CICS Programming	240	9,398.40
Batch Programming	160	6,265.60
Forms Design &Overlays		
Certificates	160	6,265.60
Letters	80	3,132.80
Imaging System		10,000.00
Imaging	160	6,265.60

Total one time cost of \$47,593.60

Yearly maintenance	96	\$3,759.36
Printing:		
Yearly run		8,000.00
Daily run		13,000.00

Total annual cost of \$24,759.36

This does not include programming to cross-check certified tax credit employers and employees with employers and employees listed on DES's quarterly wage reports for verification/fraud purposes to determine if they actually worked there.

ASSUMPTION (continued)

The UCTF is strictly for the payment of UC and cannot be used to cover the costs generated by this proposal. The agency's administration account is funded by federal grants and is restricted to the administration of the UC program. Special appropriation from General Revenue would be needed to cover the costs created by the proposal. This amount could be substantially more depending on the work load and need for additional programming after the program is started, or it is found that additional space is need to facilitate the increased staff and other factors.

**Oversight** assumes, for purposes of this fiscal note, that the Department of Labor and Industrial Relations could handle the provisions of this proposal with up to 2 Contributions Tech I's and 2 Clerk II's and the corresponding equipment and expense. **Oversight** has ranged the administrative impact on the Department of Labor and Industrial Relations from 0 to 4 FTE.

**This legislation will reduce total state revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
<b>GENERAL REVENUE FUND</b>			
<u>Loss-General Revenue Fund</u>			
Income tax credit for paid leave	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)	\$0 to (\$5,000,000)
<u>Cost-Department of Revenue (DOR)</u>			
Reprogramming Costs	(\$20,115)	\$0	\$0
<u>Cost - Department of Labor and Industrial Relations (DOL)</u>			
Personal Service (0 to 4 FTE)	\$0 to (\$82,940)	\$0 to (\$101,518)	\$0 to (\$103,547)
Fringe Benefits	\$0 to (\$20,246)	\$0 to (\$24,781)	\$0 to (\$25,276)
Expense and Equipment	\$0 to (\$98,580)	\$0 to (\$46,796)	\$0 to (\$46,833)
Programming costs	<u>\$0 to (\$59,925)</u>	<u>\$0 to (\$24,759)</u>	<u>\$0 to (\$24,759)</u>
Total Administrative Cost-DOL	<u>\$0 to (\$261,691)</u>	<u>\$0 to (197,854)</u>	<u>\$0 to (200,415)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(\$20,115 to \$5,281,806)</u></b>	<b><u>\$0 to (\$5,197,854)</u></b>	<b><u>\$0 to (\$5,200,415)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

The proposal could have an economic impact on all employers, since it provides up to \$5 million in tax credits. Employers, who provide employees paid leave to participate at school functions during school hours, may be certified to receive \$12.50 for each hour taken. The amount of impact to small business alone can not be predicted and would be contingent on factors not currently known such as the number of hours of leave taken, the increased cost for completion of the paper work, how often the employer applied for credit, postage if not faxed and the amount of tax credits granted/certified.

### DESCRIPTION

This bill authorizes a state income tax credit for employers who allow employees paid leave for the purpose of volunteering at public elementary or secondary schools. The tax credit will be equal to \$12.50 for each hour of paid leave allowed or \$5,000, whichever is less. No more than \$5 million of tax credits may be issued statewide per year. The taxpayer must be certified for the credit through the Department of Labor and Industrial Relations.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Revenue  
Department of Elementary and Secondary Education  
Department of Labor and Industrial Relations



Jeanne Jarrett, CPA  
Director

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